VIAVID
communications simplified.

SmartRent Technologies Inc.

Second Quarter 2022 Earnings Conference Call

August 11, 2022

CORPORATE PARTICIPANTS

Evelyn Infurna, *Senior Vice President, Investor Relations*

Lucas Haldeman, *Chairman and Chief Executive Officer*

Hiroshi Okamoto, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Rod Hall, *Goldman Sachs*

Ryan Tomasello, *KBW*

Barry Oxford, *Colliers*

Sidney Ho, *Deutsche Bank*

Erik Woodring, *Morgan Stanley*

Jason Weaver, *Compass Point*

Steven McDermott, *Cantor Fitzgerald*

PRESENTATION

Operator

Good evening, and welcome to the SmartRent Inc. Second Quarter of 2022 Earnings Conference Call.

As a reminder, this conference call is being recorded.

I would now like to turn the conference over to your host Evelyn Infurna, Senior Vice President of Investor Relations.

Thank you, Evelyn. You may begin.

Evelyn Infurna

Thank you, Operator.

Hello, everyone, and thank you for joining us today.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Lucas Haldeman, Chairman and CEO, and Hiroshi Okamoto, CFO, will be taking you through our results for the second quarter of 2022, as well as guidance for the remainder of the year, and the third quarter.

After today's market close, we issued an earnings release and filed our 10-Q for June 30, 2022, both of which are available on the Investor Relations section of our website, smartrent.com.

Before I turn the call over to Lucas, I would like to remind everyone that the discussion today may contain statements related to our business that may be considered forward-looking, including statements concerning our plans to execute on our growth strategy, our ability to maintain existing, and acquire new customers, the benefits of our strategic acquisitions, including our acquisition of SightPlan, expected financial results, product portfolio enhancements, expansion plans, and opportunities, expectations regarding key operational metrics, and other statements regarding our plans and prospects.

Forward-looking statements are often identified with words such as "we expect," "we anticipate," "we believe," or similar expressions. These statements reflect our view only as of today, August 11, 2022, and should not be considered our views as of any subsequent date. We do not undertake any obligation to update or revise any forward-looking statements.

Forward-looking statements are not promises or guarantees of future performance and are subject to a variety of risks and uncertainties that could cause the actual results to differ materially from our expectations. For a discussion of material risks and other important factors that could affect our actual results, please refer to those contained in our most recent annual report on Form 10-K, filed with the SEC on March 24, 2022, along with the quarterly report on Form 10-Q, and earning's release and current report on Form 8-K, filed with the SEC today—all of which are publicly available on the Investor Relations section of our website, at smartrent.com, and on the SEC's website at sec.gov.

As a reminder, during today's call, we will refer to certain non-GAAP financial measures. A discussion of these non-GAAP financial measures, along with the reconciliation to the most directly comparable GAAP measure is included in our earnings release. We'd also like to point out that we've added new financial visuals to the earnings release that represent our disclosures and illustrate our results.

With that, let me turn the call over to Lucas.

Lucas Haldeman

Thank you, Evelyn.

Hello everyone and thank you for joining us today. In the second quarter, SmartRent reached a number of operational milestones: as of June 30, 2022, we have deployed more than 550,000 units, installed over 2 million pieces of hardware, and engaged with more than 2 million operator and resident users. We had 447 unique customers across multiple verticals that own or control more than 6 million units.

In March, we expanded our capabilities with the acquisition of SightPlan, which offers a comprehensive SaaS platform to automate the property lifecycle. Our combined teams are executing on cross-selling sales strategies, product enhancements and development, as well as operational efficiencies.

We recently announced the appointment of Terry Danner, from SightPlan CEO to Executive Vice President of Sales for the combined enterprise. Terry is a pioneer in the multi-family space, bringing more than 30 years of leadership experience, and a deep network of industry relationships to our team. We are extremely excited about Terry's new role, and the continuing evolution of our company.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

We are just beginning to see the benefits of this synergistic acquisition. SightPlan's solutions are highly complimentary to SmartRent's Smart Home operating system, and we are poised to take advantage of the opportunity to increase market share.

This quarter, SmartRent deployed more than 60,000 units, and generated over $42 million in revenue, establishing new quarterly records. Importantly, we improved profitability with margin expansion for both professional, and hosted services, and reduced Adjusted EBITDA loss by over $3 million, compared to the previous quarter.

As of June 30, committed units increased 29% year-over-year, to over 780,000—bringing total units deployed and committed units to over 1.2 million, up 50% from 800,000 from the second quarter of 2021. Units booked in the quarter grew 53% to approximately 59,000, up from approximately 39,000 in the second quarter of last year.

Total bookings in the quarter increased 87% to $57 million, compared to $30 million for the same quarter last year. SaaS bookings in the quarter totalled $3.4 million, compared to $1.8 million in the second quarter of last year. SaaS ARPU was $4.79 across all units booked, compared to $3.83 for all units booked in the second quarter of 2021. We also continued to see higher SaaS ARPU with new customers, which reached $7.48 in the second quarter.

The metrics just referenced, related to bookings, are not inclusive of SightPlan. We are able to achieve this through software subscription price increases, and the addition of new customers in the long tail.

As you are aware, global supply chain constraints are persistent. Our results for the quarter were record-setting, but were also muted, due to circumstances beyond our control. The demand for our product is strong and growing, however, our ability to execute on deployments was impacted due to shortages and repeated shipment delays for certain components as well as specialty locks. To mitigate this challenge, we've pivoted, and we will continue to pivot to deployments for communities requiring hardware that is more readily available.

Our customers remain loyal to the SmartRent solution, as evidenced by our record backlog. We have built strong relationships with our clients, and at their request, we will schedule our backlog deployments, once all necessary components are available. Eventual improvement of our supply chain should enhance our path to profitability, and higher recurring ARR as we incorporate our backlog into future deployments.

I'm going to turn the call over to Hiroshi, to discuss our financial results. Following Hiroshi's remarks, I will share the details of our revised outlook, before opening the call for questions.

Hiroshi?

Hiroshi Okamoto

Thank you, Lucas.

SmartRent achieved notable gains in the second quarter, resulting in record revenue and improved profitability, in spite of supply chain issues.

Let's start our review by talking to the statement of operations. In the second quarter of 2022, total revenue increased 96% to $42.4 million, from $21.7 million in the second quarter of last year, and set a new company record for quarterly revenue. Sequentially, total revenue increased 14% from $37.4 million in the first quarter of 2022.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

The increases reflect higher volume of deployment's Smart Home hardware devices, the growth in the number of recurring software subscriptions, and the contribution from SightPlan for a full quarter. All three revenue streams increase in the quarter compared to the same quarter last year, and importantly, the largest increase in revenue was in hosted services, which has the highest margin.

Drilling further into hosted services, SaaS revenue in the quarter increased 337%, to $7.6 million, from $1.8 million in the second quarter last year. On a linked-quarter basis, SaaS revenue increased 88% from $4.1 million, reflecting the growth in the number of recurring software subscriptions, and the contribution from SightPlan for a full quarter.

Total gross margin improved to 2.3%, from 1.3% in the second quarter last year, and improved from a negative gross margin of 12.7% in the first quarter.

Notably, our professional services margin improved to negative 55% from negative 119% compared to the first quarter, resulting from a 12% increase in ARPU, and a 21% decrease in unit cost. Even more notably, we saw continued improvement in hosted services margin. During the quarter, hosted services margin was 49% compared to 36% in the second quarter of 2021, and 39% in the first quarter of 2022.

We anticipate continued improvement to gross margin in the second half of 2022 as we see the benefits of price increases introduced across all three revenue streams earlier in the year.

Operating expenses for the quarter were approximately $28 million, compared to $10.3 million in the second quarter of 2021. The year-over-year increase reflects investment in the growth of our team and corporate infrastructure, costs associated with being a public Company, and the incremental expenses assumed in connections with the operations of SightPlan and iQuue.

Included in G&A expense in the second quarter of 2022, was $3.8 million of stock-based compensation, and $1.8 million in acquisition-related compensation expense.

Net loss for the quarter was $25.6 million, as compared to a net loss of $10.1 million in the second quarter of 2021, and a net loss of $23.4 million in the first quarter of 2022.

Adjusted EBITDA loss was $19.8 million, as compared to an Adjusted EBITDA loss of $9.3 million in the second quarter of 2021, and an Adjusted EBITDA loss of $23.1 million in the first quarter of 2022. As a result of record revenue and improved gross margins, Adjusted EBITDA improved by more than $3 million compared to the first quarter of 2022.

Moving to the balance sheet, SmartRent's total differed revenue as of June 30, 2022, increased 68% to $125.4 million from $74.5 million at the end of the second quarter of 2021. We expect to recognize over 60% of total differed revenue within the next 12 months.

SmartRent is solidly positioned from a capital and liquidity perspective. As of June 30, 2022, the Company had approximately $263 million of cash, no outstanding debt, and full access to a $75 million revolving line of credit. Our liquidity position provides us with sufficient capital to advance our organic growth plans and support incremental external growth initiatives.

I will turn the call back to Lucas, for additional perspective on our business, and our outlook for the third quarter, and the balance of 2022.

Lucas Haldeman

Thank you, Hiroshi.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

While we've been able to navigate a myriad of supply chain difficulties, obtaining component parts for Alloy Access, Fusion Hub, as well as specialty locks, remain a persistent challenge, and our expectation is that we will not see marked improvements with respect to supply chain delays for the remainder of this year.

Due to persistent supply chain challenges, our results for the quarter—while record breaking, fell short of our expectations, and require a revision to guidance for the remainder of 2022. Based on anticipated hardware deliveries, we now expect full-year deployments to be between 190,000 and 220,000 units, with revenue in the range of $155 million to $180 million.

We have also revised our expectations for Adjusted EBITDA, to a loss of $70 million to $75 million. With respect to the third quarter, we are expecting 45,000 to 50,000 new units deployed, with a revenue range of $43 million to $47 million.

I am pleased to share that despite our revised guidance, we remain on track in 2023 to be intra-year Adjusted EBITDA positive, due to year-over-year growth in units deployed, combined with growth to our ARR.

With the addition of SightPlan, we have diversified our business strategy, and are able to augment SaaS revenue. Our path to profitability should be further enhanced with the eventual improvement in the supply chain, allowing us to execute on higher ARPU deployments.

Before we open the line for questions, I'd like to reiterate the key themes from the quarter. We experienced record revenue growth and improved our profit margins for both professional and hosted services, in spite of supply chain issues. Importantly, demand for our solutions is stronger than ever, and we will be able to deploy units that have moved to our record backlog as global supply chain headwinds ease.

We continue to believe supply chain disruptions are temporary, and our path to profitability and our growth trajectory remains on track.

Operator, please open the line for questions.

Operator

Thank you, sir.

The first question comes from Rod Hall of Goldman Sachs.

Rod Hall

Yes, hi. Thanks for the question.

I guess I wanted to start, Lucas, with kind of a high level question on the environment. We've seen some data on multi-family real estate construction delays, and I know that you're mostly retrofit, but we've seen that data, and then the general macro kind of environment, obviously is weakening—certainly for single-family homes. I'm just wondering what you're hearing from your customers in respect to this as they look out into '23. Do you think that—does this encourage them to purchase solutions like SmartRent? Does it cause people to pause a little bit? Just kind of wondering what you think the macro impacts to the business might be as we look out over the next few quarters.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Lucas Haldeman

Yes, hey, Rod, thanks for the question.

What we're seeing and hearing from the multi-family segment is really still continued strong demand, and tremendous growth in renters. We've also seen some of the public REITs (phon), so our customers have already announced, and we've seen income ratios to rents actually go down into pretty affordable rates, sub (phon) 25% for most of the big REITs. We're still seeing a lot of renter demand as home prices and rates go up for single-family homes; I think it's driving demand for renters.

The other macro trend that we are seeing is really around increasing operating efficiency, and I know that people are seeing—multi-family REITs are seeing their cost of capital go up, and so they're starting to think more about the expense side. That's another driver of demand for our products, and as they look at reducing the number of staff and implementing technology, we see really favourable tailwinds.

All of the demand indicators for us are just incredibly strong and growing every month, and so we feel really good about the macro environment right now.

Rod Hall

Great, okay. That's helpful, Lucas.

Then I wanted to kind of circle back on the supply question. I think I remember last quarter—the Alloy Access was the issue. I think you're still struggling to get the Fusion Hubs, but then we've heard from other people in semiconductor supply chain, things are starting to loosen up a little bit because consumer demand for some of the higher volume things like smartphones, is weakening. Just curious whether you're seeing anything on the edge that is improving supply for you, and maybe you could give us a little bit more detail on specifically where the supply chain constraints are right now as we sit today.

Lucas Haldeman

Yes, I mean, the supply constraints for us still remain as they were last quarter—really around Alloy Access, our common area access platform, our Fusion Hub, and also on specialty locks that are made-to-order. We have seen some thawing in the supply chain around some of our more standard products, we have a record number of Smart Home Hubs in inventory today in Arizona—it's not that there's no thawing, it's just on the edge, sort of on the margin where we need that access control, and where we need specialty locks, we're still not able to get it.

But as I think, we're getting guidance from our partners that it's Q4 into Q1 before we're really getting a steady supply. There's sort of a slow drip coming in, and then that translates—everything sort of cascades off of that. As these jobs are waiting for that to come in everything gets pushed back, and so it's just sort of a function of timing for us.

Rod Hall

Great.

Okay, Lucas. Thanks very much. Appreciate it.

Lucas Haldeman

Thanks Rod.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Operator

Thank you.

The next question comes from Ryan Tomasello, of KBW.

Ryan Tomasello

Hi, everyone, thanks for taking the questions.

Just following on with the supply chain topic—is there any way to quantify approximately how many deployments are on hold? Maybe as a percentage of your books and undeployed backlog due to these component access limitations? To the extent we do get relief, perhaps sooner than expected, are there any capacity issues on your ability to work through that pent up backlog in a timely fashion? I guess based on your current staffing, where would you say your installation capacity stands on maybe a monthly or quarterly basis?

Lucas Haldeman

Thanks, Ryan.

On the supply chain side of it, I think I can share, we're have over 100,000 units in our backlog right now, over 300 access control jobs on hold. It is a significant and a record backlog. Our pace is still around—at capacity, we feel like we can do 25,000 to 30,000 new units per month of our IoT product; and so, if you sort of marry that up with as supply comes in, we feel like we've got the right amount of staff in place, so we're trying to kind of walk that line between having enough staff to be ready for when we get supply in, but not sort of get overstaffed. I think we've done a really good job of balancing that, using bit our W2 and our general contract labor.

The good-news-bad-news is it's a very localized problem. We need the supply to come in. We feel like we've got the crew and the teams in place to deliver once that happens.

Ryan Tomasello

Got it.

Then in terms of the expectation to reach Adjusted EBITDA positive (inaudible) a year, next year, how dependant is that on the supply chain constraints updating, and to the extent that those disruptions continue and look less temporary than you think, what actions would you consider taking in terms of balancing those headwinds with your profitability targets? Thanks.

Lucas Haldeman

It kind of goes back to the first question too, which was—we're watching the labor costs and making sure we're sort of appropriately staffed; but most of the forecast that we have now, as we said in the call, we're pivoting to those jobs that—where we have the inventory. It takes time for us to pivot it's not a quick ship to turn, and so that's where we feel good about reiterating the guidance into 2023, with the line of sight we have, we feel like we're on track to reach that milestone.

Ryan Tomasello

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Great. Thanks for taking the questions.

Lucas Haldeman

Thanks, Ryan.

Operator

The next question comes from Barry Oxford of Colliers.

Barry Oxford

Great. Thanks for taking my question.

Lucas, just I guess to harp on the guidance even a little further—you had mentioned on another question that your supply chain people were giving you visibility into like 4Q, Q1, as far as timing, as far as when things might lighten up a little bit. What guidance had they given you in the past as far as timing, and have they been correct on their timing?

Lucas Haldeman

Thanks for the question, Barry.

Barry Oxford

Yes.

Lucas Haldeman

It's an excellent question, and no. We've sort of been fighting these continued delays, and that's where we're optimistic that maybe some of the stuff is going to come in sooner, but we're certainly watching it closely. I think it is a good point to make that we are reliant on multiple suppliers, and we're working hard to diversify our suppliers. One of the benefits of us being a hardware-agnostic platform is that we can look at other hardware and look at implementing other solutions; and so, given enough time, I think we feel like we've got some different pathways to make sure we get what we need—either from our current supplier or from additional supplier we'll bring on.

Barry Oxford

Great. That's helpful. That's helpful.

Now, switching gears just a little bit, last question—on the margins, I'm looking at the hardware. You were slightly—and not that this is a huge deal, but you were slightly positive in 1Q on your margins on the hardware, but yet you were slightly negative this quarter. Was there anything in particular on the cost side that drove that?

Lucas Haldeman

In particular, yes. Our costs are still going up. The other thing that we're fighting in the hardware, is not just the supply, but the cost of supply going up; and we're able to pass that through, but not immediately. Contracts we've signed in the previous quarter—if the price moves on us—we want to get that hardware in so we're willing to pay a little bit more, but you will see some fluctuation in that.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

We anticipate that'll continue to marginally improve throughout the year. I don't think you're going to see a huge jump, but that will get back to the positive side in Q3.

Barry Oxford

Okay, perfect.

Thanks, appreciate the color.

Lucas Haldeman

Thanks, Barry.

Barry Oxford

Yes.

Operator

The next question comes from Sidney Ho of Deutsche Bank.

Sidney Ho

Great. Thanks for taking my question.

I'm looking at the units, in the quarter, it's set (phon) up nicely year-over-year by 55% but it is down roughly 35% quarter-over-quarter. Can you just walk us through the dynamics there? I assume it had nothing to do with supply constraint. Is there a seasonal pattern about bookings that we should expect? Along the same line, how are you thinking about bookings for the rest of the year, which I think is more reflective of the current demand environment?

Lucas Haldeman

Yes, Sidney, thanks for the question.

There is a seasonality to our bookings which is what you're saying, where actually, you'll see Q2 and Q3, while typically our best quarters for instillation, you'll see a slowing in bookings. It's primarily a function of where we set budgets and make buy decisions on multi-families. It's sort of Q4, Q1 is where we're setting up and getting ready for peak leasing season—which we're in the middle of now, there tends to be less buying happening as institutional owners are in the middle of their peak leasing season.

We felt like we had a great bookings number for Q2. It is, for us, the better metric is to look year-over-year than necessarily quarter-over -quarter for that metric. I think you will see Q2, Q3 certainly grow some bookings year-over-year, but Q4 and Q1 are going to always be our stronger quarters for bookings.

Sidney Ho

Okay, that's helpful.

Follow-up question is on the margins for the professional services. If it has improved to negative 55% in Q2, what is your expectation in the second half of the year? The supply constraints are certainly

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

impacting that number. Longer term, how are you thinking about the margins? Would it be viewed to you as an enabler, so maybe a break-even type of business? How long would you think you need to get to that point?

Hiroshi Okamoto

Hi, Sidney, this is Hiroshi. I'll just answer that.

In terms of the professional services margin, we saw market improvement from Q1, because I think as we've stated, ARPU went up 12%. Our seller's (phon) price went up as well as our unit—cost per unit went down 21%. I think though, going forward, as we noted at our guidance for Q3, the unit volume is down, so I think we will have challenges in terms of professional services margin in Q3. But in the future, as our units go back up, we believe that it'll be at a sustainable level.

Sidney Ho

Okay.

Thank you.

Operator

The next question comes from Erik Woodring, of Morgan Stanley.

Erik Woodring

Hi guys. Thank you for taking my question.

I apologize for harping on the supply chain side, but I was just wondering kind of, can you give us a little more color into the conversations you're having with your suppliers today again? What kind of visibility do they actually have? Can you get any form of rebates back from them as you face delays that obviously negatively impact your business? Would just love to know how these conversations are maybe changing as the supply chain landscape evolves. Thank you.

Lucas Haldeman

Yes, I mean we're in—thanks Erik, first of all, for the question. We're in constant communication with these suppliers. We have people in Southeast Asia and people in Mexico also double-checking what we're hearing and making sure that we're getting the full picture of what's going on. It is just a matter of—in certain areas, and certain components, we have not seen a thawing of the supply chain, and there's still a global shortage. We know from shopping other people in the industry, not even our competitors—which is other access control and security dealers, everyone is fighting this.

We are starting to get a lot more visibility, and a lot more granular with the reports we're getting on when, where, and what is coming out of production, but we're taking a much more conservative view to make sure that we're able to sort of not have to reset expectations going forward.

Erik Woodring

Okay. That's super helpful.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Then maybe just on the total customer count—obviously nice growth, I imagine. Can you just break down what of that was kind of like organic versus acquired? Then that's it for me, thanks.

Lucas Haldeman

Yes, we can share the (inaudible) metrics as well, but the bulk of that was organic growth that you're seeing. When we did put in the SightPlan customers, the unique customers of SightPlan, so you'll see us organically went from 290 to 318, and the remaining delta of that is the SightPlan customers folded in.

Erik Woodring

Okay. Super. Thanks so much, guys.

Lucas Haldeman

Thanks, Erik.

Operator

Thank you.

The next question comes from Jason Weaver, of Compass Point

Jason Weaver

Hi, good evening. Thanks for the time.

I'm pretty sure I know the answer to this, but again, regarding the supplier constraints on the proprietary products, are you exploring any alternative relationship that might be able to soften the blow? Perhaps even domestic producers?

Lucas Haldeman

Hi Jason.

Yes, we are absolutely pursuing additional suppliers. Actually, when you said in the question "proprietary," the manufacturer of our own hardware, we actually have good consistent supply of. I think I mentioned in an earlier question, we actually have a record-number of Smart Home Hubs in stick, and so that's where we feel really good about what we have, and what we can go deliver on—it's other third party suppliers that we're having the challenge with; and so, we're certainly looking at other suppliers.

We are not currently exploring anything domestically. Specifically, around the access control board's a very specific component that isn't able to be sourced domestically at this time.

Jason Weaver

Okay, got it. Thank you for that.

I was going to say, if this is a persistent condition past that Q4, Q1 timeline that you mentioned, as you're thinking, at what point do you start to think about adjusting the expense base given the capacity that you have right now?

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Lucas Haldeman

I mean, it's something we're looking at continuously—weekly and monthly, and we're able to move on if we need to, but I think the other path is more what we're focusing on which is making sure because we are in a hardware-agnostic platform, we can put other hardware onto this, and bring it our hardware on. We've already started significant projects around broadening the hardware that we have, instead of reducing capacity, we look to hit capacity with additional hardware.

Jason Weaver

Got it.

All right, thank you.

Lucas Haldeman

Thanks Jason.

Operator

The next question comes from Steven McDermott, of Cantor Fitzgerald.

Steven McDermott

Hi, good evening, and thank you for taking my question.

As you look at professional services, real wages have decreased somewhat in the past six months or so, what is the dynamic that you're seeing there? As far as pricing—correct me if I'm wrong, but I believe you guys have a (inaudible) initiative in 3Q. I was just kind of wondering, what pricing power are you seeing given the macro environment with demand on the rise, or still strong, versus the cost-conscious customer? Any color would be appreciated. Thanks

Lucas Haldeman

Thanks for the questions, Steven.

I'd say, so we took our pricing initiative was actually in Q4 of last year, and the guidance we've given is it'll come in in started in Q2, which it did, which is part of why we have the pickup in professional services margin and continue through Q3 and Q4. On the pricing side, that's how that's going. I think we're actually seeing most of our customers continue to take a full service white-glove installation price, but we're able to pass through our increased costs.

We have not seen wages come down with our labor in the field, nor internally with research and development, although it certainly has leveled off. I think we saw, particularly in Q1, a big jump in some markets that was over 50% quarter-over-quarter in terms of cost of labor. We've seen that start to flatten off, but I don't thin we've seen a real pullback yet in that labor cost

Steven McDermott

Great, thank you.

Lucas Haldeman

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Thank you.

Operator

Thank you.

Mr. Haldeman, there are no more questions in the queue. Please continue with your closing remarks.

Lucas Haldeman

Great.

Thank you all for joining the call. I appreciate your support and look forward to talking to you again next quarter.

Have a great night.

Operator

Ladies and gentlemen, the conference is…

Evelyn Infurna

Bye.

Operator

Ladies and gentlemen, the conference is now concluded. Thank you for your participation. You may now disconnect your lines.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com